
UNIT 5 PRODUCT CONCEPTS AND CLASSIFICATION

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5.0 OBJECTIVES

After studying this unit you should be able to :

- explain the meaning of product and its essential attributes
- distinguish between various types of products
- describe the terms 'product mix' and 'product line' and explain product line related strategies
- narrate the concept of product diversification and related strategies.

5.1 INTRODUCTION

In the previous four units you have learnt the basic concepts of marketing, i.e., nature and scope of marketing, marketing environment, and markets and market segmentation. When a marketer starts his operation, he has to content with certain environmental forces that tend to influence his activities. To match such forces, keeping organisational strengths and limitations in mind, he develops an overall marketing programme called marketing mix. The marketing mix is composed of four elements viz., product mix, pricing mix, place mix and promotion mix. It is also referred to as four 'Ps' of the marketing mix. In this unit you will study the first element of the marketing mix, i.e., the product. You will study the meaning and essential attributes of a product, types of products, product mix and product line, related strategies, and the concept of product diversification and related strategies.

5.2 MEANING OF PRODUCT

We take steel sheet, nuts and bolts, a motor, paint, and other accessories, process them in a given manner and our effort may result in the form of a washing machine. However, when the consumer buys the machine, it is not simply the machine that emerged out of the efforts and things that went into it. The consumer buys it because he has a specific want (i.e., something to aid in washing clothes) and the consumer is exploring a way to satisfy that want. He looks for an accepted brand name, warranty, an assured after-sales service, some appealing physical features and an impressive colour. Thus, marketers should recognise that people are not simply interested in buying the physical features of the product, but they buy to satisfy their

wants. For that matter some products which people buy do not have physical feature at all. Take for instance an income-tax consultant. He sells his advice which does not have any physical features. It means, apart from physical products, we must also include services within the scope of our discussion.

Thus, a product may be defined in a narrow as well as broad sense. In a narrow sense, it is a set of tangible physical and chemical attributes in an identifiable and readily recognisable form. In a broader sense we may look at it in the form of an object, idea, service, person, place, activity, goods, or an organisation. It can even be a combination of some of these factors.

Let us study how 'product' is being defined by various people. According to Philip Kotler, *a product is anything that can be offered to a market for attention, acquisition, use of consumption; it includes physical objects, service, personalities, place, organisation and ideas.*

Jay Diamond and Gerald Pintel states that *the total product, in addition to the physical product, includes guarantees, installation, instructions for use, packaging, branding and the availability of service. The total product is what the customer buys, and frequently the fringe characteristics such as guarantees and servicing are as important as the physical product itself.*

William J. Stanton defined the term 'product' as *a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs.*

As defined by Jerome McCarthy, *a product is more than just a physical product with its related functional and aesthetic features. It includes accessories, installation, instructions on use, the package, perhaps a brand name, which fulfils some psychological needs and the assurance that service facilities will be available to meet the customer's needs after the purchase.*

According to W. Alderson, *a product is a bundle of utilities consisting of various product features and accompanying services.*

Schwartz defined a product as *something a firm markets that will satisfy a personal want or fill a business or commercial need; and includes, all the peripheral factors that may contribute to consumer's satisfaction.*

From the above definitions it can safely be concluded that the word product, in the context of marketing, has a much wider connotation. It is applicable to any offering to a market for possible purchase or use. It encompasses physical objects (i.e., a television), services (e.g., airlines), places (e.g., tourist resorts), organisations (e.g., redcross), persons (e.g., an athlete) and ideas (e.g., flood relief aid). It also includes supporting services e.g., design, brand, package, label, price, etc. *To sum up a product is a combination of physical, economic, social and psychological benefits.*

Essential Attributes of a Product

Based on the above definitions, we can list out the essential characteristics of a product as follows :

- 1) **Tangible or Intangible :** It may be capable of being touched, seen and presence felt. For example, products like a comb, refrigerator and motor cycle are tangible. At the same time, a product need not necessarily be tangible. It can be intangible but capable of providing a service. For instance, repairing, hair-dressing, insurance, etc., are intangible but provide satisfaction to the customers.
- 2) **Associated Attributes :** A product consists of various product features and accompanying services. Thus, a product is comprised of attributes including colour, package, brand name, accessories, installation, instructions to use, manufacturer's prestige, retailer's prestige, after sale service, etc. These attributes differentiate the products from each other.
- 3) **Exchange Value :** A product must be capable of being exchanged between a buyer and a seller at a mutually acceptable cost.
- 4) **Satisfaction :** It should be capable of providing satisfaction to the buyer, both real and psychological. As far as the seller is concerned, it should provide the much needed business profit.

1) What is a product?

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2) State whether the following statements are True or False.

- i) A product is always tangible.
- ii) A product provides satisfaction to the customer.
- iii) A product cannot be identified.
- iv) Every product has exchange value.

5.3 PRODUCT MIX AND PRODUCT LINE

A firm may be selling a single product or a wide range of products. For instance, Godrej Company manufactures a variety of products like office furniture (tables, chairs, steel almirahs), office equipment (typewriters), cosmetics (toilet soap), domestic appliances (refrigerators), etc. While referring to the range of products manufactured or sold by a firm, marketers use two concepts very extensively. Those concepts are 1) product line, 2) product mix. Let us discuss these terms in detail.

Product Line : A product line is an expression generally used to describe a group of closely related products. A group of products may be referred to as a product line either because they cater to the needs of a particular group of buyers, or they function in similar manner or they are sold through identical marketing facilities or fall within the same price range. The crux of the situation is that such reasoning may be consistently used for referring to a product group as a product line. A seller may identify a number of product lines to be offered to buyers by keeping in view the buyer's considerations, economy of production, distribution, etc.

Product Mix : The expression product mix refers to all the products offered by a particular seller. Product mix has three components, viz., breadth, depth and consistency. The **breadth** (or width) of the product mix indicates as to how many product lines are offered by a seller. For example, Bajaj Electricals offers a variety of electrical appliances such as fans, mixers, lamps, gysers, etc. The term **depth** refers to the assortment of sizes, colours, and models offered within each product line. For example, Palmolive Soap is offered in three different types to cater to different types of skin of the consumers.

Consistency means the closeness of the product lines in end-use, production requirements, distribution channels, etc. *A product item can be defined as a specific version of a product that has a separate brand name or designation in the seller's list.*

Let us understand these three terms 'product line', 'product mix' and 'product items' through an illustration. Delhi Cloth and General Mills Limited deals in product lines like vanaspati, sugar, chemicals, calculators, fertilisers and readymade garments. All these product lines taken together are the company's product mix. However, double bull shirts is its product item.

Look at Figure 5.1 for a diagrammatic illustration of the concepts of product mix and product line.

Figure 5.1 shows that there are five product lines. Here the **width of the product mix** is five product lines. The **length of the product line** refers to the total number of product items offered in a product line. For instance, the first product line has the length of five product items and the third product line has the length of only one product item. The **length of the product mix** refers to the total number of product items offered by the company. In this illustration the length of the product mix is 15. We can also calculate the **average length of product line** by dividing the length of

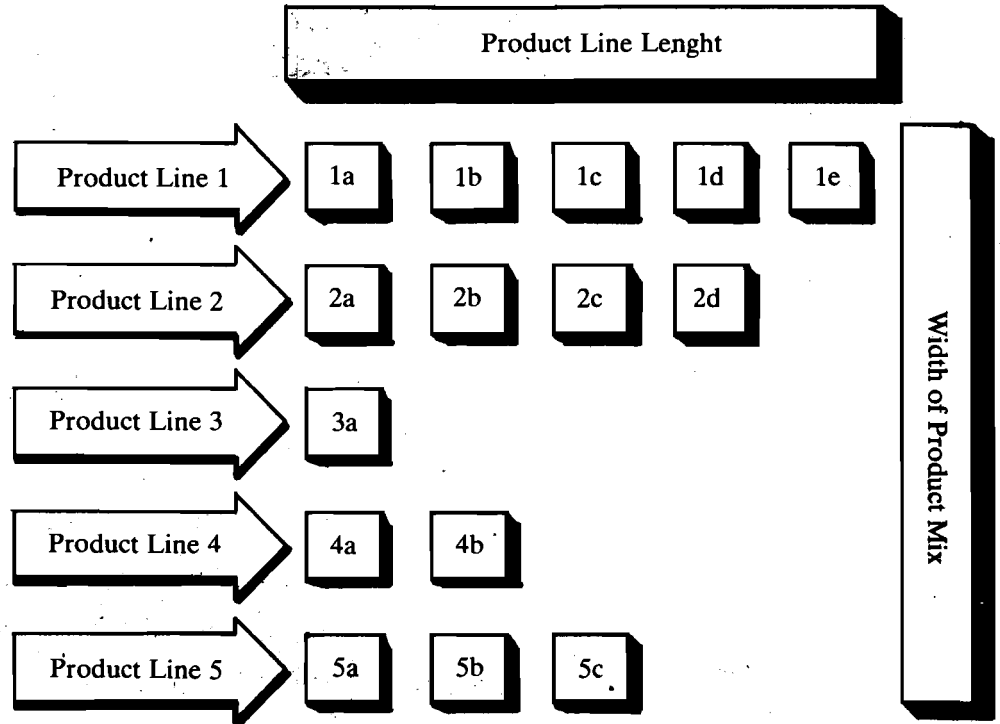


Figure 5.1 : The concepts of Product Line and Product Mix

product mix (here 15) by the number of product line (here 5). In this case average length of product line is three ($15 \div 5$).

5.4 PRODUCT MIX AND PRODUCT LINE STRATEGIES

Product mix of a seller, while giving expression to its current position, is also an indicator of the future. Thus, product mix is not a static position but a highly dynamic concept. A company may withdraw a product from its existing mix, if the product is not contributing to the profitability and growth of the company. Similarly, a new product may also be added to cash on some attractive opportunity that comes its way. Thus, the companies always attempt to maintain an optimal product mix with a view to maintain a balance between current profitability, and future growth and stability. For this end, a company alters or modifies the existing product line in any of the following ways :

- 1) **Contraction of the Product Line** : When a company finds that some of its products are no more profitable, it may decide to suspend their production. Similarly, changes in the marketing environment may also necessitate withdrawal of a product. A product may also be dropped from the product line if it is found that the same resources used for the production of the product can be put to more profitable use by producing another product. Decisions relating to these aspects are termed as "*Contraction of the Product Line*". Thus, *thinning out the product mix either by eliminating an entire line or simplifying the product items within the line is called contraction of product line*. This is also called **Contraction of Production Mix or Product Line Simplification**. This strategy is adopted mainly to eliminate low-profit products and to get more profit from fewer products.
- 2) **Expansion of Product Mix** : To cash on available opportunities, a company decides to expand its present product line. It may also increase the number of product lines and/or the depth within a line. Such new lines may be related or unrelated to the existing product mix. For example, a company dealing in drugs and chemicals may add products in a relatively new area like Computers.
- 3) **Changes in Quality Standards** : When the market expectations undergo a change, a firm may have to react by altering the quality standards of the existing products. Such changes can be brought about through **Trading Up** and **Trading Down** techniques.

- i) **Trading Up** : When we add a higher priced prestige product to the existing low-priced product line, it is termed as **trading up**. This strategy is adopted with the hope of increasing the sales volume of the existing low-priced products. If conditions so demand in future, the company may increase promotional efforts for the new product and thus add to overall sales volume through the new product, thereby improving profitability of the firm. In this manner a company known for low-quality products tries to raise its image of dealing in high-quality goods on the one hand and offering an alternative to buyer to choose from. We often hear such terms as "Janta Model" and "Deluxe Model" and this illustrates the point.
- ii) **Trading Down** : It is the reverse of trading up. When a firm adds low quality products at relatively lower price to its line of high priced prestige products, it is termed as **trading down** strategy. It helps in widening the marketing base and results in expanding overall sales volume. Introduction of moped by a company manufacturing motor cycles is a case of trading down.
- 4) **Affecting Change in Model/Style of an Existing Product** : The desire of the consumer varies with varying times. To cope with such change in the consumer mood, a company can react by offering new models of a product or changing the style of an existing product.
- 5) **Product Differentiation** : Under this strategy, a firm tries to differentiate its products from the competitor's products or other products within the same product line offered by the company by highlighting quality or design. This strategy is aimed at avoiding competition on price basis. The competition is then met at non-price front and a price-war is avoided. The firm, thus, promotes awareness of the good attributes of the product offering. In view of the fact that this strategy involves large promotional effort with huge financial outlays, it is also known as **promotional strategy**.
- 6) **Product Positioning** : As an integral part of product segmentation, after the market is segmented, it becomes necessary to pinpoint the needs of each segment and offer products to satisfy the needs of specific segments. This process is referred to as **product positioning**. It includes all activities from identification of a market segment to directing marketing effort at.
- 7) **New Product** : In view of increasing competition, scientific advancement, enhanced consumer expectations, it is necessary that new products are introduced. Such introduction is essential for the survival and growth of an organisation. The rate of increase in expenditure on Research and Development by many organisations is a clear proof of the need and realisation to introduce new products.

Check Your Progress B

- 1) What is the meaning of product mix?

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- 2) What is a product line?

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3) Differentiate between trading up and trading down.

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4) What is contraction of product mix?

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5) Distinguish between product item and product line.

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6) Match the items in Column A with the items in Column B.

Column A	Column B
i) Trading up	a) To avoid competition on price basis
ii) Product line	b) Adding a low priced product to a high priced product line
iii) Contraction of product line	c) Group of closely related products
iv) Product Differentiation	d) Adding a high priced product to a low priced product line
v) Trading down	e) Suspension of a product item from the product line

5.5 CLASSIFICATION OF PRODUCTS

You have studied in Unit 3 that, in order to make the market programme effective, the markets are segmented and marketing strategies are developed for each segment. In the same way, it is also useful to classify products into homogeneous groups, as different types of products require different marketing approach. There are several ways of classifying products :

- 1) On the basis of the user status, products may be classified as consumer goods and industrial goods.
- 2) On the basis of the extent of durability, products may be classified as durable goods and non-durable goods.
- 3) On the basis of tangibility, products may be classified as tangible goods and non-tangible goods. These non-tangible goods are referred to as services.

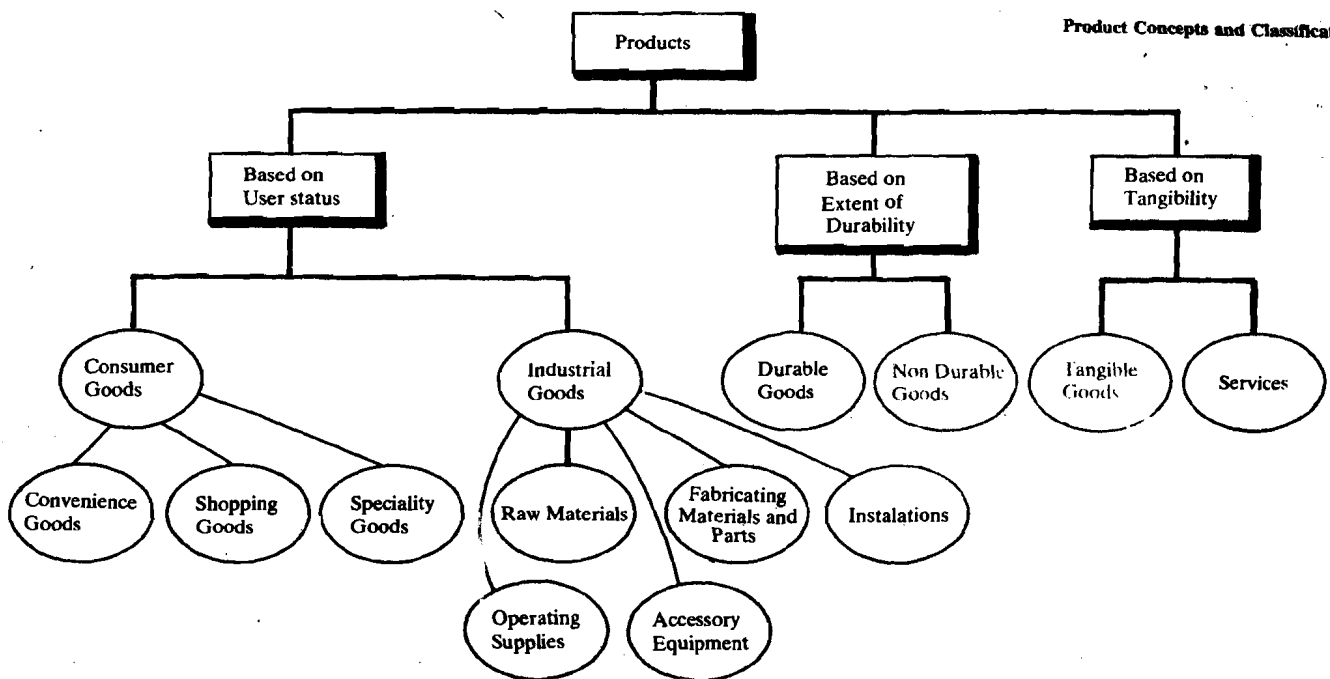


Figure 5.2 : Classification of Products

Look at Figure 5.2 carefully for a detailed classification of products. These classifications are necessary for a marketer, as different types of products require different marketing strategies. Let us now take the following four major types, and analyse their characteristics and marketing strategies :

- 1) Consumer goods
- 2) Industrial goods
- 3) Durable and Non-durable goods
- 4) Services.

5.5.1 Consumer Goods

Consumer goods are those products which are bought by the households or ultimate consumers for personal non-business use. Consumers use the product in the form in which the product is being offered i.e., no further processing is done. For example, a tooth brush, a comb, a wrist watch or a moped are all meant for personal use of households and are, thus, classified as consumer goods. Consumer goods may be classified into three types as : 1) convenience goods, 2) shopping goods, and 3) speciality goods. Let us discuss about these three categories in detail.

Convenience Goods

A class of consumer goods that people buy frequently with the least possible time and effort are called 'convenience goods'. These are the products the consumers want to purchase frequently, immediately and with a minimum effort. Milk, bread, butter, eggs, soap, newspaper, biscuits, tooth pastes, etc., are some examples of convenience goods. This category of goods has a low unit price, is not bulky and not greatly affected by fad and fashion. They have two significant characteristics : 1) the consumer has complete knowledge of the products which he wants to buy and 2) the product purchased with a minimum of effort. Convenience goods are usually sold by brand name and are low-priced. Many of them such as bread, milk and edible oil, are staple items, and the supply must be constantly replenished. In most cases, the buyer has already decided to buy a particular brand at a particular store and spends little time deliberating about the purchase decision. So convenience goods must be readily accessible when the consumer demand arises. To ensure this, the manufacturer must secure wide distribution.

The consumers rarely visit competing stores to compare price and quality while purchasing convenience goods. The possible gains from such comparisons are outweighed by the costs of acquiring the additional information. This does not mean, however, that the consumer remains permanently loyal to one brand of cigarettes, or soap or biscuit. A consumer is willing to accept any of several brands and, thus, will buy the brand that is most accessible. Since the price of most convenience goods is

low, trial purchases of competing brands or products are made with little financial risk, and often new habits are developed.

Retailers usually carry several competing brands of convenience products, and are not able to promote any particular brand. Therefore, the promotional burden to develop consumer acceptance for the products falls on the manufacturer.

Shopping Goods

These are a class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., of alternative products in competing stores. The purchaser of shopping goods lacks complete information prior to the shopping trip and gather information during it. For instance, a woman intending to buy a new dress may visit many stores, try on a number of dresses, and spend making the final choice. She may go from store to store in surveying competing offerings and ultimately select the dress that most appeals to her. In addition to women's apparel, shopping goods include such items as jewellery, furniture, appliances, shoes, etc. It is important to place the convenience goods in stores located near other stores carrying competing items, as it facilitates the customers to compare the product. Shopping goods are typically more expensive than convenience goods.

Some shopping goods, such as children's shoes, are considered homogeneous i.e., the consumer views them as essentially the same. Others such as furniture and clothing are considered heterogeneous i.e., essentially different. Price is an important factor in the purchase of homogeneous shopping goods, while quality and style are relatively more important in the purchase of heterogeneous goods. Manufacturers of convenience goods require some retail outlets as consumers are willing to look around a bit for what they want. Normally, manufacturers directly supply the goods to the retail stores that buy in large quantities.

Speciality Goods

A class of consumer goods with perceived unique characteristics, such that consumers are willing to spend special effort to buy them, are known as Speciality Goods. The buyer of speciality goods is well aware of what he or she wants and is willing to make a special effort to obtain it. The nearest camera dealer may be twenty miles away, but the camera enthusiast will go there to inspect and buy that camera. To purchase a colour TV a person in a village may require a special trip to a nearby city which is several miles away. Still he will go there, spend his time in inspecting several brands and finally buy a set of his choice. Examples of some of the speciality goods are photographic equipment, TV sets, VCRs, stereo sound equipment, new automobiles, etc.

Speciality Goods possess unique characteristics that cause the buyer to prefer that particular brand. For these products the buyer possesses complete information prior to the shopping trip and is unwilling to accept substitutes. Speciality goods are typically high-priced and are always branded. Since consumers are willing to exert considerable effort to obtain them, fewer retail outlets are needed. Since brand is important, the manufacturers of speciality goods advertise extensively.

This three-way classification of consumer goods allows the marketing manager to gain additional information for developing an effective marketing strategy for the product. For instance, once the new food product has been classified as a convenience product, you gain insight about marketing strategies in branding, promoting, pricing and distribution methods.

5.5.2 Industrial Goods

Industrial goods are those goods which are meant to be bought by the buyers as inputs in production of other products or for rendering some service. The product may, thus, undergo further commercial processing. *Industrial products are meant for non-personal and commercial use.* Industrial goods include items like machinery, raw materials, components, etc. It may be worthwhile clarifying a point that the same product may sometimes be classified as a consumer product and as an industrial product depending upon the end-use. Take the case of coconut oil. When it is used by a person as hair oil or cooking oil, it would be treated as a consumer product. However, when coconut oil is used in the manufacture of a toilet soap, it is treated as an industrial product. Similarly, take the case of car tyres. When it is used by a

car owner, it becomes a consumer product. The same tyre when used by a car manufacturing company, it becomes an industrial product. Thus, many products can be treated as industrial goods as well as consumer goods. However, the industrial buyer is cost-conscious and is concerned about the quality and standard of the product being offered to him. An industrial buyer is not impulsive and is rational in buying effort. Therefore, industrial goods are to be sold in a different way from consumer goods. You have studied in detail about the difference between industrial buyer and ultimate consumers in Unit 4.

Depending on how the goods enter the production process, industrial goods may be classified into five groups as follows :

Raw Materials

Raw materials are those industrial goods that become part of another physical product. Raw materials include goods found in natural state such as minerals, marine products, land, products of forests, etc., and agricultural goods like corn, cotton, fruits, milk, eggs, etc. Marketing strategies for the two categories of raw material are different. First group of raw materials are normally bulky and have low unit value. They are produced by a few large producers. Second category of raw materials (agricultural products) is produced by a large number of small producers spread over a large area. Most of the second category products are perishable.

Fabricating Materials and Parts

This category of industrial goods also becomes actual part of the finished product. Unlike raw materials, fabricating materials and parts have already been processed, to some extent, but may need further processing before actual use. For example, yarn being woven into cloth and pig iron being converted into steel.

Installations

They are manufactured industrial products, e.g., a generator and a large pump set for city water supply scheme. They alter the scale of operations in a firm. Normally, installations are directly sold to the industrial user and middlemen are not involved. Pre-sale and post-sale servicing is required for these products.

Accessory Equipment

They are used to aid production operations of an industrial buyer, and does not have an influence on scale of operations of the buyer. It does not form part of the finished product.

Operating Supplies

They are low priced, short-lived items purchased with minimum effort and could well be termed as convenience goods of industrial field. They aid in the firm's operations without becoming part of the end product e.g., lubricating oil, stationery, etc.

It may be added that the demand for industrial products is derived, inelastic and widely fluctuating. The buyer is knowledgeable and their number is limited. Because of large size of demand, an industrial buyer can influence the market to a large extent.

5.5.3 Durable Goods and Non-durable Goods

Tangible products with a long life and lasting many years of active service to owner are termed as durable goods. Television, fan, refrigerator, pressure cooker, etc., may be cited as examples of durable goods. A durable product would require a lot of personal selling, and pre-sales and post-sales service. Such products provide a higher margin to seller but require an assured after-sales guarantee. Therefore, in case of refrigerators, the number of years of guarantee (particularly for the compressor) is an important consideration when a consumer makes his final selection.

If a customer purchases a cyclstyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by 'peons' who may not know how to use it. This results in poor duplication and copies look unattractive and the consumer gets the impression that the fault lies with the machine. So, while marketing such a product, it is important to guide the actual uses of the machine.

Products which are consumed in one go or last a few uses and get depleted on consumption are termed as non-durable goods. Soap, tooth paste, cigarette, soft drink, etc., are some examples of non-durable goods. For example, a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and, therefore, there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty. In view of the fact that such products are consumed fast and require frequent purchases, they need to be made available in a large number of sales points.

5.5.4 Services

Services are specially mentioned here because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. *Services are those separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.* For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building up its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which include airlines, banks, hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners, etc. need marketing.

Check Your Progress C

- 1) Distinguish between consumer goods and industrial goods.

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- 2) Distinguish between durable and non-durable goods.

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- 3) What is a service?

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4) State whether the following products are consumer goods or industrial goods :

- i) Electricity
- ii) Shoes
- iii) Petrol
- iv) Car
- v) Mango
- vi) Toys
- vii) Electricity Generator

5) Which one of the following are durable goods and which are non-durable goods?

- i) Television
- ii) Tooth Paste
- iii) Bath Soap
- iv) Refrigerator
- v) Desert Cooler
- vi) Hair Oil

5.6 PRODUCT DIVERSIFICATION

A single product company can hardly expect to provide satisfaction to many consumers for a long time. On the other hand, a multi-product company can offer an alternative product to meet the changing needs and tastes of the consumers. It is for this reason that most companies, as a matter of policy, offer a variety of products in the product-mix. This phenomenon is called product diversification. The firm would strive to add something new, it may be a new product or it may be entry into a new market or it may be inducting some new technology. For example, Brooke Bond have diversified from Tea/Coffee market into the business of selling spices. Hindustan Machine Tools Ltd (HMT) started with machine tools but later on diversified into such areas as watches, tractors, printing machinery and electric bulbs. Thus, *product diversification means adding a new product to the existing product line or product mix*. Product diversification is applicable not only to production, but to selling or distribution as well. A seller dealing in watches may diversify by selling toys.

Generally, diversification is categorised into two types : 1) related diversification and 2) unrelated diversification.

5.6.1 Related Diversification

Where the new products introduced in the product mix are similar to the existing products, it is described as 'related diversification'. Related diversification is the most common form of diversification, inexpensive and easier. For example, Hindustan Lever offers a variety of toilet soaps such as Lifebuoy, Lux, Pears, etc., and also other brands of soaps or cleaning materials such as Vim, Surf or Rin as part of related diversification strategy. So far, the relatedness of the products is quite clear. However, this relatedness is sometimes stretched to include other similar items. For example, in case of Hindustan Lever, toiletries would also be included under related diversification. For example, Hindustan Lever produces Signal and Close Up tooth pastes.

Do you know why Gillette Company launched their razor? Surprisingly, the answer was not just to make more profits through this extra product namely the razor, but to increase the sale of their blades.

Some of the probable reasons for companies undertaking related diversification are :

- 1) to make a more effective use of the existing selling and distribution facilities,
- 2) to use its under-utilised production capacity,
- 3) to meet varied customer needs,
- 4) to take advantage of its existing reputation in a particular type of products, and
- 5) to increase the sale of existing products.

How far should a company venture to diversify into related product line depends upon whether :

- 1) diversification reduces the unit cost of selling and distributing to middlemen
- 2) the existing sales force can effectively sell the proposed products
- 3) it can meet the competitive threats or who the possible competitors are; what their marketing strategies, strength and limitations are

- 4) there are additional expenses involved in promoting the new product, the company can meet such additional cost
- 5) the new product will improve the organisational image and reputation
- 6) the company can undertake manufacturing of the new product at a reasonable cost
- 7) the proposed new product can be effectively differentiated to attract potential buyers.

If the answers to most of these questions are yes, affirmative, the company would be well advised to launch such a diversification.

5.6.2 Unrelated Diversification

When the new products offered or introduced are quite different from the existing ones, the company is said to have adopted the strategy of unrelated diversification. For example, if a manufacturer of consumer products diversifies into the manufacture of raw materials such as chemicals or industrial products, such diversification is described as unrelated diversification. This naturally involves heavier costs and managerial challenges. This is the reason why related diversification is more popular.

For example, Hindustan Lever was basically a consumer product company. It was forced into unrelated diversification because of its desire to grow in the case of Foreign Exchange Regulation Act and Industrial Licensing Policy. Today this company is a leading manufacturer of sodium tripoly phosphate (STPP), glycerine, nickel catalyst and fine chemicals. It is also producing a plant-growth nutrient, a product of its own research, branded 'Paras'. It is supported to increase cereals and vegetable yields considerably. Thus, this company has now diversified into unrelated products. Take Godrej Company, another well known company which has a varied product mix. It makes not only cosmetics, but also steel furniture, animal feeds and locks. It can be seen that this company has also adopted unrelated diversification as its product mix strategy.

Unrelated diversification is 'new product-new market' strategy. Diversification into unrelated product line aims at increasing company profitability through increased sales volume by addition of new products in new markets, i.e., by selling unrelated product lines to entirely different markets. This is also called *conglomerate strategy* and is normally achieved through making acquisitions and affecting mergers. It can also be brought into being by an unexpected scientific research breakthrough or by coincidence finding an opportunity unfolding itself.

This strategy entails considerably greater risk than any other product-market strategy. It is a situation where the company is new both to the product and to the target markets. In view of this, it is essential that the company should assess the pros and cons of such product/market entry very carefully. As a matter of policy, this strategy should be embarked upon only after all other strategies have been fully filed-up i.e., present product lines do not provide any further scope of diversification.

5.6.3 Advantages of Diversification

Diversification has a number of advantages to the seller :

- 1) It helps the company to increase overall profitability.
- 2) Addition of new products helps in attracting new dealers.
- 3) Sometimes additional products help in spreading over-head costs, thereby reducing unit cost of all products.
- 4) Diversification helps to level off production and effectively reduce seasonal fluctuations in production and sales.
- 5) If the additional products are based on the raw materials presently being used, the cost of the raw materials may be reduced because of the advantages of large purchases.
- 6) A small scale firm suffers from the weaknesses of low-level production e.g., high per unit cost, low level of standardisation, lack of specialisation, etc. These can be overcome through diversification.

It may, however, be stated that product diversification is a strategy, and not a panacea for all ailments of the firm. Diversification is useful if the company can afford to practise the multi-product multi-market posture. The company should have the needed financial and managerial resources to practice diversification. The management should do a detailed analysis of the company's product-market posture.

1) What is product diversification?

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2) Differentiate between related diversification and unrelated diversification.

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3) State whether the following can be treated as related diversification or unrelated diversification.

- i) A refrigerator manufacturer started the production of air conditioners.
- ii) Producer of washing powder started the production of washing machines.
- iii) Cycle producer started the production of cycles for kids.
- iv) A company selling toilet soaps entered into the market of washing soaps.
- v) A cement company diversified into iron and steel.
- vi) TV manufacture started manufacturing of VCRs.

5.7 LET US SUM UP

A product is any offering to the market for possible purchase or use. It encompasses physical objects, services, places, organisations, persons and ideas. Essential attributes of a product include tangibility or intangibility, associated with some attributes for being identified and accepted, should have exchange value and should provide satisfaction.

A product line is an expression generally used to describe a group of closely related products. Product mix refers to all the products offered by a firm and has three components, viz., depth, breadth and consistency. Product line strategies are : 1) contraction of product line, 2) expansion of product line, 3) changes in quality standards, 4) trading up and trading down, 5) changes in model and style of an existing product, product positioning, and 7) new products.

Products may be classified in many ways. Based on the user status, products can be classified as consumer goods and industrial goods. The goods which are bought by the households or ultimate consumers for their non-business personal consumption are called consumer goods. Consumer goods may be further classified as convenience goods, shopping goods and speciality goods. Industrial goods are those products which are meant to be used by the buyers as inputs in production of other products. They can be classified into raw materials, fabricating materials and parts, installations, accessory equipment, and operating supplies.

We can also categorise tangible products into durable and non-durable goods depending upon the period during which a product is used by a consumer. Services are those separately identifiable, intangible activities which provide want satisfaction, and which are necessarily tied to the sale of a product or another service.

When a manufacturer offers more than one product, it is described as product diversification. Where the new products introduced in the product mix are similar to the existing product, it is described as related diversification. When a company introduces new products which are very different from the existing products, the diversification is called unrelated diversification.

5.8 KEY WORDS

Accessory Equipment : A category of industrial goods that aid production operations of an industrial buyer and does not have an influence on the scale of operations of the buyer.

Consumer Goods : Products bought by the individuals or households for their personal non-business use.

Contraction of Product Line : Dropping a product from the product line.

Convenience Goods : A class of consumer goods that people buy frequently with the least possible time and effort.

Durable Goods : Tangible products with a long life and lasting many years of active service to owners.

Fabricating Materials and Parts : A category of industrial goods that have received some processing and will undergo further processing as they become a part of another product.

Industrial Goods : Products bought by the individuals or institutions for use in the production of other goods or for rendering some service.

Installation : Manufactured industrial products that directly affect the scale of operation of an industrial user.

Non-durable Goods : Tangible products that are consumed in one go or last a few uses and get depleted on consumption.

Product : A set of tangible and intangible attributes including packaging, colour, price, manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs.

Product Differentiation : Differentiating the product from the competitor's products or products offered by the same company by highlighting quality or design.

Product Diversification : Adding a new product to the existing product line or product mix.

Product Item : An individual product offered by a seller.

Product Line : Refers to a group of closely related products offered by a particular seller.

Product Mix : Refers to all the products offered by a particular seller.

Raw Materials : A class of industrial goods that have not been processed in any way and that will become part of another product.

Related Diversification : Adding a new product that is similar to the existing products.

Services : Essentially intangible and separately identifiable activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.

Shopping Goods : A class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., of alternative products in competing stores.

Specialty Goods : A class of consumer goods with perceived unique characteristics such that consumers are willing to spend special effort to buy them.

Trading Down : Adding a low priced product to the existing high priced prestigious product line.

Trading Up : Adding a high priced prestige product to the existing low priced product line.

Unrelated Diversification : Adding a new product which is different from the existing products.

5.9 ANSWERS TO CHECK YOUR PROGRESS

- A 2 i) False ii) True iii) False iv) True
- B 6 i) d ii) c iii) e iv) a v) b
- C 4 i) It can be a consumer product or an industrial product.
 ii) It is a consumer product.
 iii) It can be a consumer product or an industrial product.
 iv) It is a consumer product.
 v) Consumer product. But when used by a company which sells fruit juice, it can be an industrial product.
 vi) Consumer product.
 vii) It can be a consumer product or an industrial product.
- 5 i) Durable ii) Non-durable iii) Non-durable
 iv) Durable v) Durable vi) Non-durable
- D 3 Related diversification — i, iii, iv & vi
 Unrelated diversification — ii & v

5.10 TERMINAL QUESTIONS

- 1) How would you distinguish between a consumer good and an industrial good? Is this distinction important? Why?
- 2) Can a firm follow concurrently product line contraction and expansion strategy in product mix? Discuss.
- 3) What are the different methods of diversification? How would you plan diversification performance for the firm?
- 4) What is a product? Explain how the classification of products is helpful to marketers?
- 5) Distinguish between product item, product line, and product mix. Describe various product line strategies.

Note: The questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 6 NEW PRODUCT DEVELOPMENT AND PRODUCT LIFE CYCLE

Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Importance of Product Innovation
- 6.3 New Product Development
 - 6.3.1 Idea Generation
 - 6.3.2 Idea Screening
 - 6.3.3 Concept Development and Testing
 - 6.3.4 Business Analysis
 - 6.3.5 Product Development and Marketing Strategy Development
 - 6.3.6 Market Testing
 - 6.3.7 Commercialisation
- 6.4 Why New Products Fail?
- 6.5 Product Life Cycle (PLC)
- 6.6 Marketing Strategies at Different Stages of PLC
- 6.7 Let Us Sum Up
- 6.8 Key Words
- 6.9 Answers to Check Your Progress
- 6.10 Terminal Questions

6.0 OBJECTIVES

After studying this unit, you will be able to :

- state the meaning and importance of product innovation
- describe the new product development process
- explain the concept and stages of product life cycle
- describe the marketing strategies at different stages of product life cycle.

6.1 INTRODUCTION

In Unit 5 you have learnt the meaning of product and various other related terms associated with it. For every company an innovative product programme is essential for the survival and growth. However, a new product just does not happen. It has to be contrived and the company has to plan it. In this unit we will discuss the process of developing a new product, the concept of product life cycle, stages in the product life cycle and marketing strategies at each stage.

6.2 IMPORTANCE OF PRODUCT INNOVATION

To innovate means to introduce something new — to introduce novelties or to make changes. When we apply this meaning to a product, an innovated product may be construed as an entirely new product or an existing product being offered with some change or modification. *A new product is, therefore, defined as a product that opens up an entirely new market, replaces an existing product or significantly broadens the market for an existing product.*

Need for an entirely new or an innovated existing product is obvious. No company can completely rely on the same product mix indefinitely. Competitors are always keen to grab a share on others' market. It is for this reason that developing new products is considered to be one of the most important activities of any business. Normally companies keep on introducing new products, each promising some additional benefits to the consumers. As a matter of fact the very justification of the existence of a business is its ability to satisfy the customers. *A business is, therefore, responsible to provide much needed satisfaction to the customers through the medium of its products and services, and innovation is the Keynote of this process.*

Nature has bestowed many varieties of resources to us. These resources are not unlimited. Unless carefully used, we shall sooner or later exhaust them, leaving the future in darkness. Take the example of crude oil. Unless petroleum products are used with care, a day may not be far off when there may not be any crude oil left in the world. Imagine the situation afterwards, there will be no vehicles, no industrial activity, no cooking gas and no furnace oil. The list is endless but horrifying. It is, therefore, important that *products be carefully planned so that we make use of natural resources in an optimal manner*. We simply cannot afford to waste such gifts of nature.

Similarly, ineffective use of manpower. If products are not planned properly and fail after their introduction in the market, all human efforts go waste. Yet we find that a large number of products meet this fate, hence a word of caution. It is important to assess the needs of the prospective customers and then the organisation should make use of appropriate technology to satisfy that need by matching it with an appropriate product or service.

A company can survive and grow only if it increases its profitability. This can be achieved through designing new products and then backing it up with a suitable marketing programme. It may, however, be recognised that adding a new product involves lots of expenditure. *Unless it is properly researched and monitored, the new addition to product/mix may not bring the desired results. It may lead to product failure and results in loss to the company.*

The consumer is becoming more and more selective in his choice of a product. With intense competition to face, a company has no option but to seek newer and newer ideas leading to more and more new products to match the situation.

To conclude, we may quote Peter Drucker, an eminent management thinker. He said, "because it is its purpose to create a customer, any business enterprise has only these two basic functions : marketing and innovation". Ultimately it boils down to the dictum "innovate or perish"

6.3 NEW PRODUCT DEVELOPMENT

As you must have realised by now, it is very important to have a strategy for developing new products. Many products fail and in order to keep expanding company sales, we must have new products. Some products of Hindustan Lever have failed, but still they remain leading manufacturers because they have continuously added to their lines and added product lines to their product mix. Their "Hima" peas introduced in the 60s flopped, because, in the words of the Chairman of Hindustan Lever, 'India is not yet ready for convenience foods, neatly done up in packages' The product 'concept' requires testing before one goes into product designing and it is very necessary to have an adequate strategy for developing new products and introducing them.

New product development involves marking out and supervising the search, screening, development and commercialisation. It therefore embraces decisions regarding the type of product idea to be taken in hand, its development and reaching the ultimate consumer to satisfy his demand. Such a philosophy of marketing would ensure the introduction of logical, well designed and individually justified products. This will enable the company to face the competition from a position of strength.

New product development, therefore, starts with the conception of a product idea, its due screening for its commercial and technical viability, probing its market potential and consumer acceptance, matching it with company facilities and constraints, developing the product with due thought and care, and its ultimate offering to the largest market segment. This sequence can well be described as a customer-oriented approach to new product planning.

From the above discussion you will appreciate that introduction of a new product is a highly sophisticated and difficult task and involves a long-term planning effort. It has a high cost component. Even after a product is finally developed, its marketing costs are exceedingly high and yet there is no certainty that it will succeed. It is for this reason that a company should move from stage to stage in a careful and systematic manner. The approach is composed of seven steps as demonstrated in

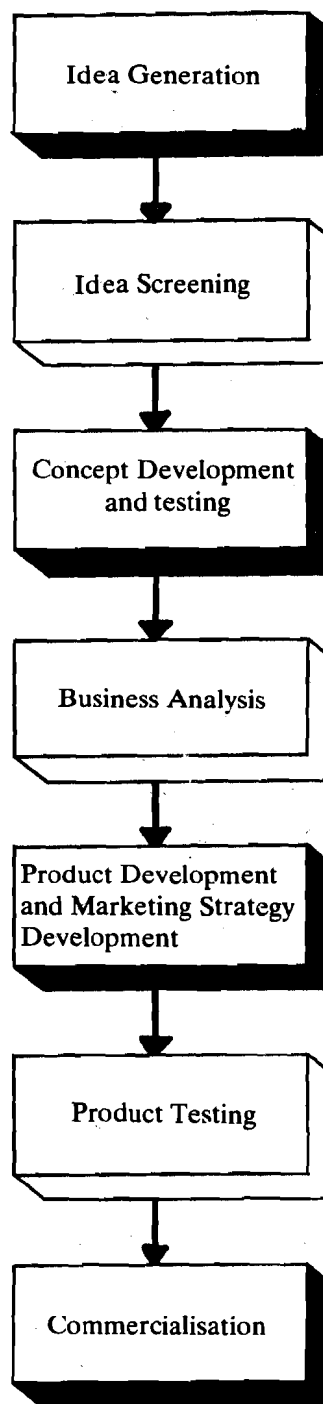


Figure 6.1 : Stages in New Product Development

We shall now discuss each stage at some detail :

6.3.1 Idea Generation

The new product approach starts with the generation of a product idea. It means matching a perceived need with the recognition of a technical opportunity. The said need may be new or an old one. It could be apparent or latent. When a technical opportunity is recognised for satisfaction of any type of needs, a product idea is generated. The new product idea can come from any one of these sources :

- 1) **Customer** : As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the customers for possible new products by keeping his eyes and ears open, and more particularly the mind to perceive even needs which are so far unexpressed. For example, in case of refrigerators,

someone conceived the idea of having a two-door refrigerator, another conceived the idea of the ball point which obviated the need for constantly filling fountain pens. Thus, new ideas can come from customer needs or problems requiring solution. A Customer may offer a suggestion or express some need that has remained unsatisfied.

- 2) **Competition** : A new product may have been introduced by a competitor or market intelligence may inform us that a competitor is developing a new product. Taking a clue from such information, the company may get the idea and experiment with it.
- 3) **Company Sources** : Sometime ideas are put forward by company salesman or distribution channel members. Such ideas are worth consideration because such people are in direct touch with the market and are capable of detecting an unsatisfied need. Similarly, a new technological breakthrough may be announced by the company's Research and Development wing. New ideas can also be thought of by company managers who keep on thinking about better products. In some cases companies conduct brain-storming sessions to promote new idea-generation from different levels and types of people in all branches of the organisation. This is basically done to have a flow of ideas.

A number of people, say executives of the organisation, are called together and asked a question for new ideas or ideas for new products. They are asked to mention it without evaluation. None is criticised. The answers are recorded on a tape recorder so that the flow is not interrupted. Thereafter, the answers generated are evaluated as will be explained in the next stage.

6.3.2 Idea Screening

After product ideas are gathered, next step is to screen them for their relative merits. In other words, product ideas generated earlier are critically evaluated at this stage. Poor ideas must be dropped immediately because unnecessary cost has to be incurred to process them further. The evaluation helps us to determine which ideas are fit for further probing and which are the ones that may be discarded. The ideas which are not compatible with the objectives and constraints of the company obviously get abandoned at this stage. Each idea must conform to company objectives and marketing needs, as also the constraints and limitations of the company. For example, a technologically sound idea may not suit the company because it may require a large capital which the company may not afford. Similarly, a company which is known for good products at economical prices may not find it easy to offer a high-priced new product because of the past image limitation. So, rather than taking up all the ideas generated, it is proper that only such ideas that come up to company and market expectations, may be pursued further.

No company can afford to pursue all ideas simultaneously. Thus, *the basic purpose of screening is to filter the ideas and select the most promising ones*. For this purpose you have to analyse the factors like market potential, profitability, likely sales volume, production facilities, availability of raw materials, possibility of using existing plant and machinery, sales force and distribution channels, financial resources the company can commit to the proposed project, etc.

6.3.3 Concept Development and Testing

The screened idea is now expanded into a concrete business proposal. From a mere expression in functional terms, the idea now gets transformed into a product concept. It means developing a fairly complete picture of the proposed company offering. It includes, in clear terms, the specifications of target consumers, the specific need proposed to be satisfied, the manner in which the need is to be satisfied, the benefit the consumer would derive from it and the cost of such need-satisfaction to the consumer. Thus, as far as possible, the concept should be exposed to target customers so that their reactions could be obtained for further evaluation. The concept so developed must be evaluated in the broader perspective of sales and profit potential, completion of product line, optimising the manufacturing and marketing facilities, etc. For example, people talk about 'battery driven cars' to save petrol. This is a concept which has to be tested in the environment in which the product is sought to be introduced. As already indicated, Hindustan Lever failed with their Hima peas and Fast Foods. This was a failure of concept testing. The mention of the failure of

Hindustan Lever is not to run down the performance of this excellent company but to emphasise that good companies introduce a number of products some of which may fail.

The introduction by Parle's of the "Big Bite" (the hamburger) did fail in some of the regions in Indian market. Was this due to wrong concept? The answer probably is the negative. The failure was because the customer got 'soggy' hamburgers at the retail end. Thus, there was lack of 'quality control' at the level of the retail outlets which did not supply freshly cooked hamburgers. So you can see that even if the concept is accepted, a failure can take place in other areas resulting in the ultimate failure of the product itself. This did not deter the company from going further. Parle's introduced Frooti and Appy which are fruit based soft beverages. These are offered in tetrapacks. This is an innovation. The question of whether tetrapacks, as packaging material, will succeed in India or not is a question of concept testing, of the package.

6.3.4 Business Analysis

As a process of continuation of concept development, at the stage of business analysis, a fairly detailed appraisal of the proposal is undertaken. The exercise comprises of projection of future demand, sales, costs, investments and return on investment. Thus, a complete profile of the proposed product is developed.

It may be contended that such figures cannot be accurately predicted. For this reason usually the company evaluates the project under different sets of assumptions about such critical elements as sales, costs and profits. Such sensitivity analysis helps the company to appreciate the acceptable range of performance for a given product and the possibility of achieving those levels of performance.

6.3.5 Product Development and Marketing Strategy Development

By now the idea has been thoroughly screened and analysed. The time has come to convert the idea into a product. At this stage the idea gets transformed into a concrete shape, with all the needed attributes as assumed at the previous stage. An attempt, therefore, is made to develop a prototype of the proposed product. This will help us to determine if the idea has the requisite technical potential and whether the company can master the needed technology.

This stage requires a close co-ordination between Engineering and Marketing Divisions. Engineers develop appropriate drawings, designs and build the prototype in line with prescribed specifications. *The focus of the whole job is to build up such a product prototype that is approximately close to the consumer product specifications.*

Along with the process of product development, the marketing division of the company develops a tentative marketing strategy. A blue-print is designed about the price structure, promotion and distribution strategy for the proposed product. They complete formalities regarding identification of sales force needs, advertising programme and sales promotion tools in relation to the new products. While doing so, the resource needs and capability of the organisation in this regard are kept in mind. If the company finally decides to give a green signal to the product idea, the following activities are to be taken up :

- 1) Establish development project.
- 2) If some changes have been found necessary, build the prototype with changed specifications.
- 3) Complete laboratory evaluation is done.
- 4) After developing tentative marketing strategy, the prototype is released for testing.

6.3.6 Market Testing

After the product idea takes shape in the form of a prototype, and tentative marketing programme has been formulated, one may go for commercial production and release in the market. However, a wise marketer does not expose the organisation to undue risk and wants to re-assure himself of a positive market response. For this purpose, he undertakes 'test marketing' of the proposed product. This product testing helps in gathering further customer reactions so as to bring about necessary changes in the prototype and other aspects of tentative marketing-mix, if

need be. *Test marketing is, therefore, defined as a research technique in which the product under study is placed on sale in one or more selected localities or areas, and its reception by consumer and trade is observed, recorded and analysed.* The aim is to try out the proposed marketing programme in a well selected representative market segment in the expected marketing environment in which the proposed product is eventually to be placed.

By test marketing the marketer re-assure himself about the sales volume and profitability levels of the proposed product. He also gets an opportunity to ascertain the nature of consumer reaction to the proposed product. Test marketing triggers off market and competitive reaction to the new product. With this feedback, the marketing manager can refine the marketing strategy formulated earlier.

The following information is gathered during test marketing :

- 1) Potential sales volume generation.
- 2) Identify buyers with innovative bent of mind.
- 3) Compare assumed target buyers behaviour with actual behaviour of the buyers.
- 4) Acceptance of strong points of the new products by the buyers.
- 5) Evaluation of impact of advertising message.
- 5) Competence evaluation of the proposed distribution channel to make the product available in the target market segment chosen.
- 7) Determine potential of repeat demand for the proposed product.

5.3.7 Commercialisation

Based on the information generated during test marketing, the product is duly modified and improved, and strategies about pricing, distribution and promotion are developed. Now the product is ready for introduction in the larger market. The product is produced in commercial scale and offered for sale in the market. As a part of marketing strategy, the company may decide to introduce the product in the entire market at the same time; or it may be introduced in a phased manner in different areas. This is decided keeping in mind the production level and assuring that the product would not go into short-supply soon after introduction.

6.4 WHY NEW PRODUCTS FAIL?

Even after thorough screening at each and every stage, all the new products introduced in the market may not succeed. Many of them fail and are withdrawn from the market. For example, as stated earlier, Hindustan Lever failed with their Hima Peas and Fast Foods. Similarly, Parle's hamburger 'Big Bite' was a failure in some markets while successful in other markets. Thus, every product introduced in the market may not succeed. Now the question is : Why do products fail in the market? The reasons for product failure are attributed to six factors by Cundiff and Still. They are :

- 1) **Product Problems** : The products fail in the market due to certain problems with the product itself as neglect of market needs or ignorance of market preferences, defects in product function, poor technical design or external appearance, poor packaging or inappropriate sizes, undependable performance or too high a variation in quality, etc.
- 2) **Distribution and Channel Problems** : Products fail due to certain problems in distribution such as inappropriate channels or outlets, lack of co-operation from middlemen, poor system of physical distribution, etc.
- 3) **Promotional Problems** : Promotional problems that contribute to the product failure are : inadequate or ineffective promotion, advertising directed towards wrong market segments, use of wrong appeals, failure to co-ordinate adequately with distribution system, improper training to sales force, etc.
- 4) **Pricing Problems** : Pricing problems such as bad forecast of price that buyers would pay, price not on par with product quality, poor cost estimates caused 'asking price' to be too high, inadequate margins for the middlemen, etc., also responsible for sometimes for product failure.
- 5) **Timing Problems** : Timing of product introduction is very important. If product is introduced too soon or too late, it may fail.

- 6) **Competitive Problems** : Competitors' aggressive strategies with respect to product, distribution, promotion and price may cause serious set back to the product in the market. The company had to react defensively rather than pursuing aggressive strategies.

The number and variety of the reasons for product failure suggest that success of a new product depends on the skills and strategies not only in product innovation but in formulating and implementing marketing strategy. Throughout the product innovation process, management should carefully watch the target market. An appropriate organisation is required to guide and co-ordinate the product innovation process at each and every stage. Besides introducing the product at appropriate time, components of marketing strategy (product, distribution and marketing channels, promotion, and price) must be combined in appropriate proportions at each stage of the product life cycle. Skill in implementing the marketing plan is required and be capable of changing the strategies in accordance with the changing market and competitive conditions.

Check Your Progress A

- 1) What is product innovation?

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- 2) What are the major steps in the development of a new product?

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- 3) State whether the following statements are True or False :

- i) Product innovation is necessary to meet the changing preferences of consumers.
- ii) Products which are thoroughly screened at the development stage always succeed in the market.
- iii) New product ideas generate from consumers only.
- iv) Commercial viability of the product is tested during commercialisation stage.
- v) At the stage of market testing, product is actually tested in a segment of the target market.
- vi) Product is introduced in the target market in full scale during market testing.
- vii) New products fail only because of unreasonable price.
- viii) Prototype of the proposed product is developed during concept development and testing stage.

6.5 PRODUCT LIFE CYCLE (PLC)

Like human beings, products also have a distinct life cycle. A product generally passes through four stages during its entire life from birth to death. These stages are: 1) introduction, 2) growth, 3) maturity, and 4) decline or obsolescence.

Thus, *product life cycle refers to the stages a product goes through from its introduction, through its growth and maturity, to its eventual decline and death (withdrawal from the market).*

A company which introduces a new product naturally hopes that the product will contribute to the profits and provide consumer satisfaction for a long period of time. This however, does not always happen in practice. So, business organisations try to remain aware of what is happening throughout the life of the product in terms of the sales and the resultant profits. The sales volume and profit curves varies with each product. However, basic shape and relationship between the two factors usually remain identical. As stated earlier, new products are essential for sustaining the

organisations and for each new product we have to take stock of the relation between sales volume and profit margin. The relationship of the two curves (sales volume curve and profit margin curve) must be clearly understood before formulating marketing policy. A company must understand and manage the various stages of life cycle of a product to ensure marketing success.

The total length of the life cycle varies from product to product. It ranges from a few weeks (as in the case of a fashion or a fad) to several years (as in the case of motor cycles or refrigerators).

You should note that among various products the duration of each stage is not the same. As a matter of fact it is different with each product. There are products which remain in the introductory stage for a number of years, while some others may find market acceptance in a few weeks and thus move on to the next stage of the life cycle.

Similarly, all products may not pass through all stages of life cycle. A product may fail right at the stage of introduction. There may be situations where a company may not enter a market till the product of another company gains acceptance and reaches the growth or maturity stage.

However, all products enter the decline and possible abandonment phase. This could be because of any of the following three reasons. Firstly, the need for the product is not there. Secondly, a better or less expensive product came into the market. Thirdly, a competitor, with a better marketing effort, forces the company product out of the market arena.

Look at Figure 6.2 carefully. It presents the relationship between the sales volume and profit volume at different stages of the product life cycle.

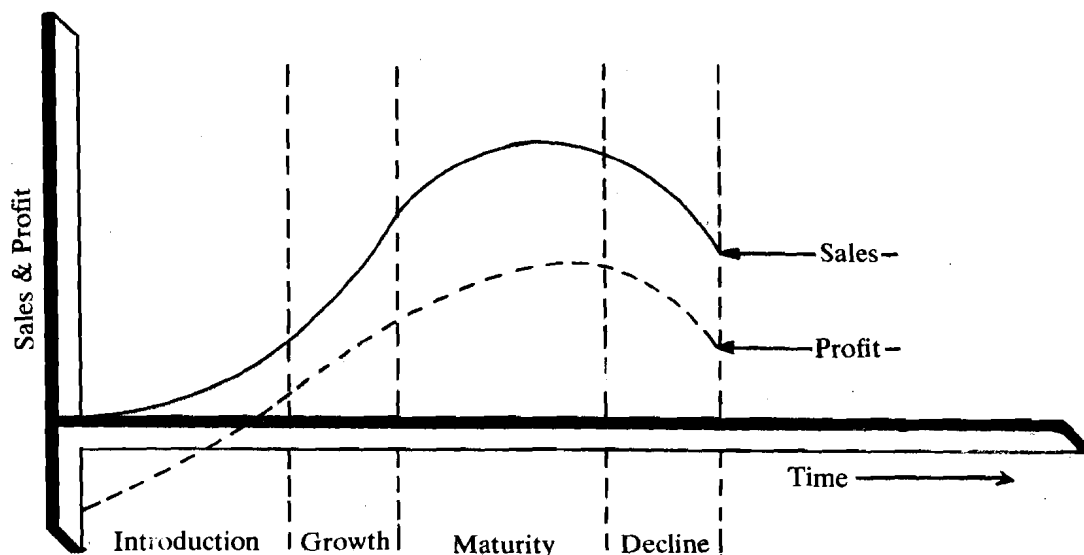


Figure 6.2 The Product Life Cycle

Introductory Stage

During this stage arrangements for full scale production are made, a marketing programme is finalised, and the product is offered to the market. From Figure 6.2 you can assess that the sales volume shows an upward trend, but the rate of growth is quite slow. At this stage, the product being new and has been first made available for purchase in the market, it may not face competition in the market.

The company has to communicate with target market and inform potential customers of the new arrival in a big way, thus incurring high promotional expenditure. The promotional effort is also aimed at inducing the potential buyers to buy and test the product. It also aims at securing distribution at retail outlets in the process. More money is spent in attracting distributors for the new product. Because of this high promotional costs and low sales volume, during this introduction stage, the profits of the company are low and sometimes even negative.

There are, if at all, only a few competitors and they all offer the basic version of the new product without any refinements. Selling effort at this stage is, therefore, aimed at those prospective buyers who can be motivated to buy. Product at this stage, is usually price high because of low level of production and high cost of promotion and distribution.

Growth Stage

After the product gains acceptance in the market i.e., accepted by the consumers as well as trade, it enters into the growth stage. Now the demand of the product, grows rapidly, generally outpacing supply. In the light of increased sales volume, the company profits also increase. Effective distribution and promotional efforts are considered key factors during this stage, so as to cash on the rising trend of demand. The company considers increased sales volume as a top priority.

In the wake of rising demand, a large number of competitors begin to enter the market. The competitors start adding new features to the product. With the rise in competition, distribution outlets also increase in number resulting in increased demand to "fill the pipeline"

Prices normally remain at the same level or may fall marginally. Promotional tempo is maintained or even raised to meet the challenge of competition.

Maturity Stage

It is too optimistic to think that sales will keep shooting up. At this stage, it is more likely that the competitors become more active. In case your product is a novel one, by now competition would have come out with a similar product in the market to compete with yours. Therefore, the sales are likely to be pushed downwards by the competitors while your promotional efforts would have to be increased to try and sustain the sales. Thus, the sales reach a plateau. This is called the 'maturity stage' or 'saturation'. At this point it is difficult to push sales up. With regard to the profit picture, the profits are likely to stabilise or start declining as more promotional effort has to be made now in order to meet competition. Unless of course, you have the largest market share with your product and it needs no extra push in the market.

Decline or Obsolescence Stage

Thereafter the sales are likely to decline and the product could reach the 'obsolescence' stage. Steps should be taken to prevent this obsolescence and avoid the decline. This decline that generally follows could be due to several reasons such as changes in consumer tastes, improvement in technology and introduction of better substitutes. This is the stage where the profits drop rapidly and ultimately the last stage emerges. Retaining such a product after this stage may be risky, and certainly not profitable to the organisation. Thus, a firm has to finally choose between a total abandonment of the product or continue it in a specialised limited market. The decision will be based on the level of remaining opportunity and ability of the management in this regard.

6.6 MARKETING STRATEGIES AT DIFFERENT STAGES OF PLC

Product Life Cycle as a concept is directly linked to the overall marketing strategy of the organisation. It not only affects the product planning exercise but also other components of the marketing mix, viz., pricing, promotion and distribution. Now let us study the various strategies normally adopted at various stages of PLC.

Introduction Stage

At the introductory stage, we have to increase sales and hence spend a lot on physical distribution and promotion. This is because we have to create an awareness and acceptance of our product. We must also increase its availability. Very often in India, it is noticed that a product is advertised but is not available at the distribution outlets. This is a waste of promotional expenses. We must make optimum use of the available resources of the organisation. Thus, distribution should be arranged before the product is launched.

We have to also counter the reluctance of customers to change their established patterns and make them purchase our product, particularly if it is of a novel nature. As against this, if it is a novel one, people may even buy it out of sheer 'curiosity'. The company can adopt skimming price strategy if it fears the entry of many competitors in the line. Alternatively, it may adopt penetration price (low price) to penetrate deep into the target market, thereby make the competitors' entry difficult, if not impossible. Skimming price is more effective when the threat of competition in the short run is not there and the company assures itself of return on investment right from the beginning. On the other, if there is likelihood of entry of competitors, penetration strategy is appropriate to keep competitors at bay. (You will study in detail about pricing in Block 3.)

Growth Stage

During the growth stage, with mounting expenses in all phases of marketing mix, the growth opportunity entails large investments. Such large financial outlays assure the company to enlarge the market share. In view of the fact that sales graph is indicating a rapidly rising trend, the company may have to invest sufficient sums to keep production in pace with rising sales volume. All this, therefore, calls for more production, extended distribution, and well thought out pricing and promotion policy. During the last phase of growth stage, when the sales shoot up and we are satisfied with the profit generated by the product, competitors will now enter the market and perhaps offer new product features. Therefore, we may have to think of improving our product so that we do not reach the ultimate 'decline' stage too quickly. The promotional expenditure is maintained at the same level or is raised slightly in order to meet competition.

Maturity Stage

We now come to the next stage called the maturity stage. This stage generally lasts longer than the other stages and poses problems for the management in maintaining the sales level. Actually, there is a slow down in the growth rate of the sales in case of such matured products. The company may well adopt a three-pronged strategy 1) market modification, 2) product modification, and 3) marketing mix modification.

- 1) Under **Market Modification** the company stresses to unearth opportunities by finding new buyers. It can be done by looking for new markets/new market segments.
Alternatively, you can find new ways of using the same product. Otherwise, you may re-position the product and concentrate your promotional efforts in a new/growing market segment. In this way, you can improve the market share.
- 2) The product, by now, has become stereotyped. There is need to come out of this stagnant picture. This can be done by well thought out changes in product characteristics to attract new customers or more usage by existing customers. **Product Modification** can be brought about by improving the quality or features or style of the product.
- 3) A company tries to stimulate sales during the maturity stage by **modifying the marketing mix** strategies. It can assume any of the following forms : 1) reduce price to attract new customers, 2) develop more affective advertising campaign, 3) aggressive promotion characterised by trade deals, gifts, contests and freeships, 4) offering new or improved service to the buyers, and 5) offering more incentive to channel members.

Declining Stage

When a product moves into the decline stage, we need to adopt different types of strategies. The decline may be slow or rapid. It may be due to better substitute products, better competition, technological advances with which we have not kept up, and several other reasons. Such a product now proves expensive for the organisation. One must, therefore, be willing to consider the elimination of such marginal or unprofitable products. It requires constant monitoring and review of sales volume from each market segment. This is essential to decide about total withdrawal from those areas where operations become uneconomical and the market cannot be stretched any more. Thus, management is faced with the problem of considering total/partial abandonment of the product. Using resources of the organisation in chasing unproductive pursuits is not good for the company. For a company product

withdrawal is as important as product introduction. Ultimately unprofitable products have to pave the way for a new product.

Check Your Progress B

1) What is product life cycle?

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2) List out the stages in a product life cycle.

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3) Identify at what stages of their respective product life cycle are the following products in Indian market context.

Product	Stage
i) Colour Televisions	
ii) Manual Typewriters	
iii) Steel Furniture	
iv) Computers	

4) Try to identify at least two products in each stage of product life cycle in Indian market.

i) Introductory Stage:		
ii) Growth Stage:		
iii) Maturity Stage:		
iv) Decline Stage:		

5) Identify four new products which failed in the market.

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6) State whether the following statements are True or False.

- At the introductory stage the company may incur losses.
- Rate of increase in the sales volume is higher in introductory stage compared with growth stage.
- Company profits start increasing rapidly in the growth stage.
- Competitors start entering the market in growth stage.
- The sales reach a plateau in maturity stage.
- The strategy of market modification is adopted in growth stage.
- Product may be modified to attract new customers and, thus, improve sales in saturation stage.

6.7 LET US SUM UP

Product innovation means offering a new product or an existing product with some change or modification. New product introduction is important because : 1) firm cannot simply rely on present product mix for a long time to come, 2) increasing competition to cut into the market share enjoyed by the company, 3) better utilisation of company resources, 4) new products add to the overall profitability of the organisation, and 5) changing tastes and needs of the consumers.

The process of new product development consists of seven stages: 1) idea generation, 2) idea screening, 3) concept development and testing, 4) product development and marketing strategy development, 5) business analysis, 6) market testing, and 7) commercialisation. The purpose of each stage is to decide whether the idea should be further developed or dropped. In this process the company aims at minimising the chances of poor ideas moving forward and good ideas being rejected.

Even after careful screening at each and every stage of product development process, many products fail after introduction in to the market. This is mainly due to the

problems associated with product, distribution channel, promotion, pricing, **competition** and timing of the introduction.

Like human beings, products also have life cycle. A product life cycle (PLC) consists of four stages : 1) introduction, 2) growth, 3) maturity, and 4) decline. .

The time taken for transit from one stage to the next varies with each product, the **company** and the timing of introduction of the product. Similarly, the profit curve **also** varies from product to product and the stage of PLC.

Introductory stage is marked by slow growth and low profits (even losses), as the product is just pushed into distribution. Heavy promotional and distribution emphasis is needed and **heavy** expenditure is incurred at this stage. When the product enters **growth** stage, sales and profits increase rapidly, customers are aware of benefits **provided** by the product and middlemen show interest to distribute the product. With the rise in demand, competition increases in size and numbers. New features are **added** to the product to make it more attractive, price is either maintained or is slightly reduced, and promotional **tempo** is sustained or even raised. During maturity **and** saturation stage, competition intensifies and profit margin declines. There is a **need** to increase advertising, reduction in prices and offer more incentives to distributors. Product improvements are restored to and cost economies are thought of to arrest the trend of decline. At the decline stage, sales and profits decline rapidly, **while** new and better products enter the market. Companies tend to cut back on promotional expenditure, unless considered essential to **revitalise** the product. The company has to take the sad decision of withdrawing the product from the product line.

ti.8 KEY WORDS

Decline Stage : A stage in the product life cycle where the sales and profits shoot down.

Fads : Novelty products that come quickly to the public eye and are lost fast. **Here** the product life cycle is very brief.

Fashion : A style which is currently accepted but is likely to change, as fashions move **in** a cycle and change over a period of time to return to the original. For example, a woman's skirt gets longer and longer until it can get longer no more. It then goes upward as fashion moves in a cycle.

Growth Stage : A stage in the product life cycle when the sales and profits increase happily for the organisation. .

Introduction Stage : A stage in the product life cycle where the product is just introduced and is at the beginning of the product life cycle. **This** is evidenced by slow growth and very small profits.

Market Testing : A stage in the product development where the product is actually **tested** in the market, that is, introduced in a consumer setting with a view to ascertain **the** reactions of consumers and dealers before a final decision to market or launch **the** product is made.

Maturity Stage : A Stage in the product life cycle where the sales stop going up and s ow down because competitors have entered the market and it becomes difficult for a continuous increase in the sales.

New Product : A product that opens up an entirely new market, replaces an existing product or significantly broadens the market for an existing product.

Product Life Cycle : Refers to the stages a product goes through from its introduction, through its growth and maturity, to its eventual decline and death.

6.9 ANSWERS TO CHECK YOUR PROGRESS

- A 3 i) True ii) False iii) False iv) False v) True
 vi) False vii) False viii) False
- B 6 i) True ii) False iii) True iv) True v) True
 vi) False vii) True - - - - -

6.10 TERMINAL QUESTIONS

- 1) What do you mean by product life cycle? Discuss the various stages in the life cycle of a product.
- 2) How can a company develop new products?
- 3) Why are the generation, screening, and analysis of ideas the most important steps in new product development?
- 4) Give some examples of products you regard as being in the :
 - a) Introductory stage
 - b) Decline stage
 Give reasons for your conclusion.
- 5) Explain briefly the 'product life cycle concept' in marketing management and state why you feel it is useful to understand this concept.
- 6) Explain how the marketing mix has to be changed during the different stages of the product life cycle?
- 7) Selection and development of a new product are very important steps in the marketing strategy. Explain briefly the stages through which you would test ideas coming up for new products until the final stage of launching the new product.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 7 BRANDING AND PACKAGING

Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Branding
 - 7.2.1 Meaning and Importance
 - 7.2.2 Advantages and Disadvantages
 - 7.2.3 Branding Decisions
 - 7.2.4 Selecting a Good Brand Name
 - 7.2.5 Registration of Trade Mark in India
- 7.3 Packaging
 - 7.3.1 What is Packaging?
 - 7.3.2 Functions of Packaging
 - 7.3.3 Criticism of Packaging
 - 7.3.4 Packaging Strategies
 - 7.3.5 Legal Dimensions
- 7.4 Let Us Sum Up
- 7.5 Key Words
- 7.6 Answers to Check Your Progress
- 7.7 Terminal Questions

7.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the terms branding and packaging
- narrate the alternative approaches in branding products
- describe the various functions of packaging
- state important legal requirements affecting packaging decisions.

7.1 INTRODUCTION

You have already studied certain aspects of product mix — definition of product, classification of products, product line strategies, new product development process and product life cycle. Besides the basic product design, the way in which a physical product is presented to potential customers, known as product presentation, is very much a part of product itself. Branding and packaging are the two major aspects relating to product presentation. In this unit we will discuss in detail about branding and packaging. We will discuss the meaning and importance of branding, advantages and disadvantages of branding, and the process of selecting a brand name. You will also study the meaning and importance of packaging, functions of packaging and the legal dimensions of packaging.

7.2 BRANDING

7.2.1 Meaning and Importance

Most consumer products and many industrial products need brand name. The brand name helps a consumer in instant recall, and this serves an important function for differentiating competing products of similar nature. A crucial step in the branding strategy is deciding on a specific brand name for the product that is being introduced. In the earlier times when the concept and practice of branding was much less developed, very often the family name/surname was used. Some of those are still very much alive, for example, Siemens or Ford. The other common method of branding was by way of addressing the product range of the company. Two famous examples are General Motors and General Electricals. It seems the function that brand was supposed to perform was either to indicate the source or the origin of the product (family name) or indicate the product range. However, a brand name has emerged

as one of the most important elements of the merchandising function in the recent times and will become more and more crucial as the competition becomes more severe in India. Let us understand what the conceptual meaning of the term brand and brand name is.

Brand : Brand is a name, word, mark, symbol, device or a combination thereof, used to identify some product or service of one seller and to differentiate them from those of competitors. The definition clearly focuses on the function of a brand, that is, to identify, irrespective of the specific means employed for the identification.

Brand Name : Brand name is that part of a brand consisting of a word, letter, group of words or letters that can be vocalized. Comparing this definition with that of a brand, it is found that the function remaining the same, brand name is only one of the means that the brand can use for identification. Brand name is a word or a combination of words/letters that is pronounceable, e.g., **Promise** toothpaste, **Rexona** soap, etc.

Brand Mark : Sometimes you must have also heard the word brand mark. Since a brand name is used in identification of a product amongst a competing set, it is necessary that each brand must have only a unique identity. This brings in the concepts of brand mark. *A brand mark is a symbol used for the purpose of identification. It can be a mark, a design, a distinctive logo type or a colouring scheme, a picture etc.* In other words, it is not a name but a means of identification. For example, picture of an elephant in a distinct frame used by the Department of Tourism, Government of India or the famous star-circle of Mercedes Benz car, or T in circle which you must have seen on buses and trucks made by **TELCO**.

Brand Name Versus Trade Mark

Quite often, brand name and trade name are used synonymously. In fact there is difference between these two terms. A trade mark is the legalised version of a brand. Brand falls under the category of industrial property rights and, therefore, subject to certain rules and regulations. It can be registered and protected from being used by others. *The American Marketing Association defines a trade mark as a brand that is given legal protection because, under the law, it has been appropriated by one seller. Therefore, we can define a trade mark as a brand or a part that is given legal protection because it is capable of exclusive appropriation.*

Thus, trade mark is essentially a legal term. All trade marks are brands, but a brand can be called as a trade mark only when it is legally protected and has been appropriated by one seller. As all trade marks are brands, a trade mark may include words, letters or numbers that can be pronounced and also may include pictorial design (brand mark). *When a brand is registered, it becomes trade mark and such trade mark is shown by displaying the letter R enclosed in a circle, shown as ®.*

Check Your Progress A

Select five durable goods and five non-durable goods in your house. Identify the brand name, brand mark and trade mark notice ®.

Brand Name	Brand Mark	Trade Mark Notice ®
Durable Goods		
1)		
2)		
3)		
4)		
5)		
Non-durable Goods		
1)		
2)		
3)		
4)		
5)		

7.2.2 Advantages and Disadvantages

Advantages and Disadvantages of branding can be analysed from three different standpoints: that of buyers, sellers, and society. Let us discuss them now.

Advantages

Buyers, sellers and the society as a whole may derive the following advantages from branding :

Buyers : The buyers can derive the following advantages:

- 1) A brand generally denotes uniform quality.
- 2) It makes shopping easier.
- 3) Competition among brands can, over a period of time, lead to quality improvements.
- 4) Purchasing a socially visible brand can give psychological satisfaction to the buyer.

Sellers : A marketer can also derive following advantages :

- 1) It helps in product identification.
- 2) In a highly competitive market, it can carve out a niche for itself through product differentiation.
- 3) If brand loyalty can be developed through successful promotion, the firm will be able to exert quasi-monopolistic power.

Societal View : From a macro-standpoint, a brand's role in improving and maintaining product quality can be considered as positive. Brands also help in better dissemination of product knowledge. Better product knowledge can contribute to more scientific and rational decision making among buyers. This will result in rational allocation of scarce resources which ultimately leads to overall welfare of the society.

Disadvantages

Branding has the following disadvantages to the buyers, sellers and the society as a whole

Buyers : Branding had the following disadvantages to the buyers :

- 1) Since brand development costs money, product prices tend to go up. This may lead to higher prices to consumers.
- 2) Taking advantage of the popularity of a brand, a manufacturer may reduce quality gradually.

Sellers : To obtain the advantages, the sellers have to spend money for developing and promoting brand name. It increases the cost of production which ultimately leads to higher prices. Once the price is higher, seller may find it difficult to achieve the targetted sales.

Society : Expenditure on promotion of a brand is considered as a social waste. Such wasteful expenditure will increase the cost of production and thus higher prices. This is not considered as good from the society point of view. It is also felt that consumers become loyal to established brands and may not be willing to shift to new brands. This may ultimately prevent the new producers from entering the market.

7.2.3 Branding Decisions

Branding has emerged as one of the most important activities in the area of marketing of products especially consumer products. Several decisions need to be taken, though not simultaneously, with regard to brand selection and its use. The following questions are to be answered in the process of selecting the brand name:

- 1) Should the product be branded at all?
- 2) Who should sponsor the brand?
- 3) What quality should be built into the brand?
- 4) Should each product be individually or family branded? Should other products be given the same brand name?
- 5) Should two or more brands be developed in the same product category?
- 6) Should the established brand be given a new meaning (repositioning)?

Let us consider each of these issues in some detail :

- 1) Whether to brand a product or not is a decision which can be taken only after considering the nature of the product, the type of outlets envisaged for the

product, the perceived advantages of branding and the estimated costs of developing the brand. Historically, it is found that brand development is closely correlated with the increase in disposable income, the sophistication of the distribution system and the increasing size of the national market. The same trend is visible in India now.

Even few years back, nobody could have thought of selling branded rice or refined flour. But now several firms in the recent past have become successful even in such product categories. The basic reason is that the consumers are willing to pay more for uniform and better quality product represented by the brand. When customers buy a branded product, they get the same quality in whichever retail shop they buy. Many other commodities, such as spices are also now being branded. There is no doubt that this trend will become stronger in the coming years.

- 2) The question of sponsorship of a brand refers basically to the decision as to whether it should be a manufacturer's brand (also known as a national brand) or a private brand (also known as a middleman's brand) or partly manufacturer's brand and partly private brand. In most developed countries where large chain/departmental stores dominate the retail distribution system, retailers buy the products from manufacturers and sell under their own brand. This is, however, largely a hypothetical question in India, where retail distribution system is highly fragmented. Only Super Bazars have started marketing a few products which are specially packed and sold under their names. However, if outlets of Super Bazars, Mother Dairy and National Consumers Co-operative Federation increase in sufficient numbers, it is possible that private brands will also become a reality in future. Some retailers' brand names in the product categories of sarees and car accessories have already been established.
- 3) A very crucial decision is with regard to the quality and other attributes to be built into the product. The matrix of such attributes will decide the product positioning. A marketer has the option to position his product at any segment of the market; top, bottom or the intermediate. For example, **Surf** is positioned as a premium quality and high-priced product. At the other end of the scale, **Nirma** is positioned as low-priced, while products such as **Det** or **Key** are somewhere in between.
- 4) You have to decide whether to adopt a family brand or individual brand. Under **family branding** all the products get the same brand name. For example, Videocon, L&T and Kissan follow this policy. Under the **individual branding**, each product is given a different name. For example, Hindustan Lever sells its products under different brand names.

One basic **advantage of using the family brand** is that it reduces the costs of product launching and promotional expenditure substantially. The firm has to promote only one brand which, if successful, would be able to sell the entire product line. Lining up the distribution channel members also becomes comparatively easier. A family brand name has been found to be very cost effective in tyre marketing. If one product does exceptionally well, other products marketed under the same brand may have positive impact.

It is, however, **necessary to be cautious in following family branding**. It will be a very ill-advised strategy if the products being offered are of highly uneven quality. It may not also be a good strategy if the markets are quite dissimilar in terms of consumer profile. A greater weakness of this strategy is that it does not recognise that each product can be given a specific identity by a suitable brand which can go a long way to make it successful.

The weakness of family branding becomes the principal strength of individual branding strategy. Recent consumer researchers have established that a name can have varied associations and conjure diverse images. These psychological factors can immensely influence the buying decisions. Individual brand strategy is in a position to take care of this aspect of marketing. The second advantage of this strategy is that if there is a product failure, its damaging effect will be limited to that particular product only and will not extend to the entire product line.

The **basic disadvantage of individual branding** lies in the economics of developing an individual brand. It is obviously a costlier strategy than the other. The other disadvantage is that the brand does not directly derive any benefit from the reputation of the firm.

To take care of these problems, some firms follow a slightly modified strategy. This involves using individual brands but also giving prominence to the company name or logo in all promotional campaigns as well as in product packaging. For example, TOMCO follows individual brand strategy but displays prominently the words, 'A **TATA PRODUCT**'. In many cases a brand extension strategy is adopted. This really is an effort on the part of the manufacturer to secure additional mileage from a particularly successful product for launching either similar or even dissimilar product under the same brand. A recent successful example is the decision to introduce **Maggi** range of sauces to capitalise on the image of **Maggi** brand of noodles.

- 5) A firm may decide several brands of the same product which to some extent are competing with each other. The basic reason is that, at least in the consumer products, various benefits and appeals and even marginal difference between brands can win a large following.
- 6) **Brand Repositioning** : Over the life cycle of a product, several market parameters might undergo a change such as introduction of a competing product, shifts in consumer preferences, identification of new needs, etc. All and each of such changes call for a relook as to whether the original positioning of the product is still optimal or not. Stagnating or declining sales also point to a need for reassessment of the original product positioning. For example, Thums Up has been repositioned several times in the recent past, from the young to the professionals to the kids and back to the young.

7.2.4 Selecting a Good Brand Name

Finding an appropriate brand name for a new product is a tricky job, basically for two reasons. Firstly, the name should be one which satisfies several marketing criteria some of which are discussed below. Secondly, the name should not be one which is already being used by another firm. This necessitates extensive investigations.

There is no simple solution to the problem of selecting a brand name. However, through extensive research and past experiences, market researchers have developed certain principles which should be followed while selecting the brand name. While selecting a brand, one should see that the brand accomplish the following features.

- 1) A brand name should reflect directly or indirectly some aspect of the product, viz. benefit, function, etc. For example, the name '**Burnol**' immediately connotes that the product has to do something with burns.
- 2) A brand should be distinctive, especially if the product requires such distinction. For example, a name like '**Chancellor**' for a cigarette conjures up ideas of status, power and opulent life style.
- 3) A brand name should be easy to pronounce and remember. Examples are **Vimal**, **Hamam**, etc.
- 4) It should be such that it can be legally protected, if necessary.

A firm invests substantial amount of money on a brand. It should therefore, ensure that nobody else takes advantage of the brand illegally. But, there is no fool-proof system for trade mark protection. However, the steps outlined below can be of a great help for protecting the trade mark.

- 1) Use the generic name of the product in association with the trade mark. An example is **Pearlpet** where PET is the acronym for generic technical product i.e. Polyethylene Terephthalate while **Pearl** is the brand associated.
- 2) Designate the brand name as a trade mark by actual notice. If the brand name is registered, the proper form of notice is the letter R enclosed in a circle.
- 3) Display the mark with some form of special graphic treatment. A trade mark is not a noun. Therefore it can be capitalised. It will be better if it can be printed in some distinctive logotype.
- 4) Do not use the trade mark in the wrong grammatical form. It should not be used as a noun, verb, in the plural, or in the possessive.
- 5) The trade mark should not be altered by additions or abbreviations.
- 6) Use the trade mark for a line of products.

7.2.5 Registration of Trade Mark in India

In India, trade and merchandise marks are registered under Trade and Merchandise Act (1958). The owner of the trade mark has the right to its exclusive use and provides legal protection against infringement of his right. If the mark is registered, it is displayed along with the brand by the letter 'R' enclosed in a circle ®. A trade mark is registered for a maximum period of seven years and is renewable for a similar number of years, each time the period of seven years expires. Further, no such trade mark should be used which is likely to be descriptive or confusing, or is scandalous or obscene, or which hurts the religious sentiments of the people of India.

Check Your Progress B

- 1) Differentiate between family branding and individual branding.

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- 2) List four brand names which express the function of the product.

- i) ii)
- iii) iv)

- 3) List four brand names where manufacturer's name is associated.

- i) ii)
- iii) iv)

- 4) i) Write five family brand names and analyse the products sold under each of these brands.

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- ii) Prepare a list of five companies which follow individual branding strategy and identify their products.

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- iii) Based on 4 (i) and 4 (ii) above, analyse what kind of products have family and individuals brands.

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- 5) State whether the following statements are True or False.

- i) It is compulsory to register the brand name in India.
- ii) Brand mark and trade mark are one and the same.
- iii) A brand generally denotes a uniform quality.
- iv) Branding helps in product identification.

- v) From the society point of view, branding is always a waste.
- vi) Trade mark can be copied by another manufacturer.
- vii) A good brand is one which is easy to pronounce.

7.3 PACKAGING

7.3.1 What is Packaging?

Packaging is a very important function as most of the products offered in the market need packaged. Some marketers even call packaging a 'fifth P', along with product, price, promotion and physical distribution. As stated earlier, however, all the marketers consider packaging as an element of product mix.

Packaging has been variously defined in both technical and marketing literature. One of the most quoted definition is *packing is the art, science and technology of preparing goods for transport and sale*. This definition brings out two salient aspects of packaging. These are :

- 1) It has to help in the physical transportation and sale of the products packaged.
- 2) Packaging as a function consists of two distinct elements, (i) the positive aspects, viz., the science and technology related to package design, selection of packaging materials, etc., and (ii) the behavioural aspects, viz., the art of product design which is associated with consumer motivation research, buying research, etc.

The last aspect has been highlighted in another definition of packing. *'Properly designed, the package should enhance the value of its contained product, and impart that impression, either directly or subtly, to the customer'*. The role of packaging in value enhancement is increasingly becoming important in consumer marketing today.

In marketing, packaging is defined as the activities of designing and producing the container or wrapper for a product. The container or wrapper is called the 'package'.

According to Philip Kotler and Gary Armstrong, the packaging may include up to three levels of material. The **primary package** is the products immediate container. If you take a shaving cream, the tube holding the shaving cream is the primary package. The **secondary package** is the material that protects the primary package and that is thrown away when the product is about to be used. The hard paper box containing a shaving cream tube is the secondary package. The **shipping packaging** is the packaging necessary to store, identify, and ship the product. A big cardboard box in which several shaving cream tubes are packed is the shipping package. Finally, *labelling is part of packaging and consists of printed information appearing on or with the package.*

Packaging Industry

An understanding of the packaging industry is necessary to fully appreciate the packaging revolution that has occurred in the consumer and industrial goods sectors. The packaging industry consists primarily of two distinct segments : 1) firms which manufacture the packaging materials, viz., tin, paper, plastics, etc., and 2) firms engaged in the formation of packaging, i.e., converting the packaging materials into unit/master packages. In addition there are other firms engaged in the printing of labels to be used in the unit/master packages, and the marketing research agencies which conduct specialised packaging research, generally for package development and adaptation.

Newer materials are constantly emerging in the packaging field and in many cases have eliminated or threatened the older materials, such as wood and steel, because of the relative cost advantage or better performance characteristics. The important packaging materials today are :

- 1) Metals -- Aluminium, Tinplate and steel
- 2) Plastics -- PVC, HDPE, etc.
- 3) Wood -- Wood and cellulose film
- 4) Paper -- Paper, board, corrugated board, etc.
- 5) Glass -- Clear, tinted, etc.
- 6) Laminates -- Aluminium foils, plastic film, etc.
- 7) Polyester -- PET

In line with the diversified packaging materials, the packaging formation has also undergone a revolution. The unit packages of consumer goods consist of a bewildering variety. The master cartons in which the unit packages are packed are, however, getting increasingly standardised, especially due to the necessity of using containers in order to facilitate physical handling and shipment as well as to reduce packing costs and loss/damage to the goods during transit.

7.3.2 Functions of Packaging

Packaging should perform the following basic functions : it should (1) protect, (2) appeal, (3) perform, (4) offer convenience to the end-users, and (5) cost-effectiveness.

Protection

The primary function of packaging is to protect the products from the environmental and physical hazards to which the product may be exposed in transit from the manufacturer's plant to the retailer's shelves and while on display on the shelves. The specific types of hazards against which protection has to be sought would obviously vary from product to product. However, the principal hazards which are almost universal are:

- 1) Breakage/damage due to rough mechanical or manual handling during transportation.
- 2) Extremes of climatic conditions which may lead to melting, freezing, etc.
- 3) Contamination, either bacterial or non-bacterial, such as by dirt or chemical elements.
- 4) Absorption of moisture or odours of foreign elements.
- 5) Loss of liquid or vapour.
- 6) Pilferage during transit or storage.

Appeal

The package is increasingly being used as a marketing tool, especially in certain types of consumer products such as perfumes or several other gift articles. The importance is also increasing due to the changed structure of retail business, especially the emergence of self-service stores.

In the case of consumer products, package serves as a silent salesman. This is true, irrespective of whether the product is a luxury, semi-luxury or an ordinary everyday use product. The following characteristics have been identified to help a package perform the self-selling tasks :

- 1) The package must attract attention.
- 2) The package must tell the product story.
- 3) The package must build confidence.
- 4) The package must look clean and hygienic.
- 5) The package must be convenient to handle, to carry out, to store and to use.
- 6) The package must reflect good value.

Packaging, however, is of greater importance in the case of certain specific types of articles. Industry-wise studies in several countries show that packaging costs in the cosmetics industry are much higher than other industries. This excessively high incidence is not due to the packaging which is required for the protective function, but for making the product attractive, a status symbol and ego-satisfying. Other products such as chocolates in gift packs also are instances where packaging performs a basic marketing function by making the products more appealing.

Consumer research on packaging has basically concentrated on two aspects which are presumed to have an influence on consumer purchase decisions. The first one is colour and the second is the package or container design. Almost all researchers have come to the conclusion that each colour has its own distinct characteristics and, therefore, has to be used in a package so that there is no mismatch between what is expected of the package and the colour used in the packaging.

One additional problem in this area is that people in different countries display divergent colour preferences, due to their diverse socio-cultural-religious backgrounds. Similarly, research has been carried out on the desirable properties of a container. Slender and cute containers are often used for beauty-care products for the feminine sex, as these are expected to create an appropriate image of the product.

Graphics and Logo types are also important in designing and conveying the total product image.

Performance

This is the third function of a package. It must be able to perform the task for which it is designed. This aspect becomes crucial in certain types of packaging. For example, an aerosol spray is not only a package but also an engineering device. If the package does not function, the product itself becomes totally useless.

Convenience

The package must be designed in a way which is convenient to use. The important point to be appreciated, however, is that it should be convenient not only to the end users but also to the distribution channel members, such as wholesalers and retailers. From their standpoint, the convenience will relate to handling and stocking of packages. The specific attributes they would seek in a package in this context are :

- i) The package must be convenient to stock.
- ii) The package must be convenient to display.
- iii) The package does not waste shelf-space.
- iv) The package must retain its looks during the shelf-life.
- v) The master packages/cartons should be easy to dispose of.

Because of the increasing concern with solid-waste disposal, the last factor has assumed importance in the developed countries, though India has not yet reached this stage. This, however, becomes a matter of importance while deciding on the transport packaging for export markets.

From the standpoint of the domestic or institutional end users, the convenience would refer to the ease of using the package, such as opening and closure of the package, the repetitive use value, disposability, etc.

Cost-effectiveness

The package finally must be cost-effective. Packaging cost as a percentage of product cost varies dramatically from one industry to another, from less than one per cent in engineering industry to more than 10 per cent in the cosmetics industry. It is important to appreciate that while analysing packaging costs, it is not enough to consider only the costs of package. This is only one, though the most important element of the total costs associated with packaging. Cost in this chain consists of :

- i) Package costs incurred in inward delivery to the factory when the product is purchased from outside.
- ii) Storage and handling costs of the empty packages.
- iii) Filling costs, including quality control and handling of filled packages.
- iv) Storage costs of the filled packages.
- v) Transport cost for distributing filled packages.
- vi) Insurance cost for the transit period.
- vii) Losses due to breakage/spoilage of the product.

7.3.3 Criticism of Packaging

Packaging is also subject to severe criticism because of the following reasons :

- 1) After consuming the product, consumers throw-away the containers in public places causing environmental problems. How to dispose of used containers is one of the major problems.
- 2) Scarce raw materials are consumed for the manufacture of containers. This depletes our natural resources. However, this criticism is offset as more and more recycled materials are used for packaging.
- 3) Packaging increases the product cost and this leads to higher prices to consumers. But it is argued that effective packaging reduces the transport costs and the losses due to spoilage. The benefits so derived may offset the cost of packaging.
- 4) Health hazards occur from some forms of plastic packaging and some aerosol cans.
- 5) It is also felt that some times packaging is deceptive. Due to attractive packaging, customers may feel that the product inside is of good quality. Products of poor quality may be packed in attractive containers to catch the attention of customers.

Check Your Progress C

- 1) Distinguish between packaging and labelling:

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- 2) What are the basic functions of packaging?

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- 3) State whether the following statements are True or False.

- i) Protection of the product is the only function of packaging.
- ii) Package should also be capable of attracting the attention of buyers
- iii) Colour of the package does not have any importance.
- iv) Packaging always increases the product cost.
- v) Package must be designed in a way it is convenient to users and middlemen.

7.3.4 Packaging Strategies

Product package often plays an important role in implementing sales promotion campaigns. Promotion is defined as a short-term special measure to boost sales of a specific product. There are several accepted promotional packaging techniques. Some of these are :

- 1) **Money-off Pack:** A 'flash' in distinctive colour is superimposed on the package, announcing the special price discount being offered. This is the most widely used form.
- 2) **Coupon-pack:** A coupon of a certain value, either as a part of the package or placed separately in the package, can be redeemed after the purchase of the product.
- 3) **Pack-in-Premium:** A premium, i.e., the gift is packed within the original product package, viz., a handkerchief in a cosmetic product package.
- 4) **Premium-package:** A specially made package having either a re-use or prestige value is referred to as premium package. Instant coffee packed in glass tumblers having closures is an example of the first type. The set of audio cassettes of Tagore songs released by the Gramophone Company of India in 1986 which is presented in a specially designed wooden box is an example of the second type.
- 5) **Self-liquidator:** The buyer has to send to the company a number of packages or part thereof as evidence of buying the product. In return, he may purchase additional quantity of the same product at reduced prices or be rewarded with a different product. Several companies in India, in the processed foods and beverages industry, occasionally use this technique.
- 6) **Changing the Package:** Introduction of a new package can also be used as a promotional technique. For example, till the very recent past, edible oils were packed in tin cans in India which looked messy and dirty. Most of the larger firms have now started using transparent one litre PET (polyethylene terephthalate) bottles which look gleaming and fresh. The companies are using this change of packaging quite effectively as an additional element in their advertising campaigns. About two decades back, **Panama** cigarettes were introduced in a soft packet of twenty for the first time in India. The instant popularity of the brand was substantially due to this novelty. *The strategy of package changes is followed either to correct a poor feature in the existing container or to take advantage of new materials.*
- 7) **Odd Size Packaging:** Packaging can also be used ingeniously to avoid direct price comparison with the competing products. This is done by a deliberate choice of odd size, while the competing brands follow a standard size. A recent example in India is the case of **Maggi Ketchup** which was introduced in the market in 400 grams bottle, while the industry-wise standard size is 500 grams bottle.
- 8) **Packaging the Product Line:** Packaging can be used to develop a family resemblance in the packaging of its several products. Identical packages or the

packages with some common features are used for all the products of a product line. This kind of packaging strategy had the benefits of family branding. *Under this strategy, when new products are added to a line, promotional value associated with old products extend to the new ones.*

- 9) **Multiple Packaging:** Placing more than one unit in one container is referred to as multiple packaging. This packaging strategy increases the sales to a large extent.
- 10) **Other Applications of Packaging as a Marketing Tool:** There are several other innovative ways in which packaging can be used for achieving higher sales. In the area of processed foods, the shelf-life of the product is an important consideration. Any firm which can guarantee a higher shelf-life would be one-up on its competitors. A new Indian company, **Tasty Bite Eatables** which is in the area of frozen and pre-cooked foods, identifies the 18 months shelf-life of its products as the major strength. The increased shelf-life is to a large extent due to better packaging.

7.3.5 Legal Dimensions

While managing the packaging function, constant attention needs to be given to the various regulations that the government has laid down in this respect. Government regulations are many and encompass areas such as the use of a specific packaging material for certain products, consumer protection, transportation of hazardous cargo, etc. The most pervasive among these is the regulation relating to the information a manufacturer is obliged to provide in the package itself on the product. This is commonly known as labelling requirement and covers a host of commodities. Principal among these are food products, cosmetics, pharmaceuticals, etc.

Label is defined as a display of written, printed or graphic matter on the container or the package of the container.

A label need not be only a fulfilment of legal requirement. In fact, properly conceived, a good label can be an important sales instrument. Since a label is the nearest source of information on a product, a buyer who otherwise may be ignorant of the product or loyal to a different brand, can be persuaded to read the label, and may in fact try the product, even if he had no such premeditation. This is especially true of purchase made in super markets or departmental stores.

A good label is one which helps a potential buyer to make his decision by providing relevant and correct information. Apart from the information which must be statutorily given, the label should therefore provide:

- i) Picture of the product, accurate as to size, colour and appearance.
- ii) Description of raw products used along with methods of processing.
- iii) Directions for use, including cautions against misuse.
- iv) Possible adverse effects, if any.
- v) Brand name.

Statutory requirements relate generally to:

- i) Net weight, when packed.
- ii) Date of manufacture.
- iii) Date of expiry, if any.
- iv) Maximum retail price including or excluding local taxes.
- v) Directions for use, including dosage requirements.
- vi) Directions for storage.

Check Your Progress D

- 1) What is multiple packaging? Give two examples.

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- 2) What are the basic purposes of changing the package?

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- 3) What is the objective of odd size packaging? Give two examples where this is adopted.

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- 4) Given below is a list of products along with their old and new types of packaging. For each of the product category which is the best packaging form in your opinion. State the reason.

i) Edible oil (a) in tin (b) in HDPE Polyjar and (c) transparent PET jar

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ii) Vanaspathi/ghee (a) in tin and (b) in plastic pouch

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iii) Fruit Juice (a) in bottle, (b) in tin and (c) in tetrapack (e.g., Frooti)

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iv) Shampoo in (a) glass bottle and (b) plastic bottle

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7.4 LET US SUM'UP

Brand management is one of the most important areas of marketing especially with reference to consumer products. The name gives the product its unique personality, and is so well associated with the product that the brand name sometimes even takes the place of the generic product name. Branding has certain advantages and disadvantages to the buyers, sellers and the society as a whole.

The selection of brand name is an important decision. You can choose any brand name you like as long as it is unique, easy to read, write, pronounce and remember, and does not have any unfavourable or negative meanings associated with it. You may choose a common family brand name for all your products or give each product its own distinctive brand. Each choice has its advantages and disadvantages and there are enough cases of success and failure to justify your choice. Sometimes even the most difficult sounding brand names succeed while catchy and simple brand names fail. In India trade and merchandise marks can be registered under Trade and Merchandise Act (1958) to get legal protection for exclusive use.

Packaging is another crucial aspect of marketing which plays an important role in determining the success of a product because implications of packaging decision are obvious since the customer confronts it face-to-face. There are so many instances of good products having failed because of poor packaging.

The Indian market is today flooded with exciting new types of packaging materials which have replaced the traditional packages. These new packaging materials have made it possible to market products such as potato wafers, snacks, and other fragile food items. Good package must protect the contents stored inside it, be attractive to the customer, be convenient to handle, store and use and perform the functions required of it. Some people are very critical of packaging because of the problems involved in the disposal of used packages, cost of developing packages, health hazards, usage of scarce resources, and possibility of misleading about quality of the product.

7.5 KEY WORDS

Brand : A name, word, mark, symbol, device or a combination thereof, used to identify some product or service of one seller and to differentiate them from those of competitors.

Brand Name : That part of a brand consisting of a word, letter, group of words or letters that can be vocalized.

Brand Mark : That part of a brand consisting of a mark, design, distinctive logo type, colouring scheme or picture used for the purpose of identification.

Family Branding : A branding strategy in which a group of products is given a single brand. It is also called blanket branding.

Label : Part of package and consists of printed information appearing on or with the package.

Packaging : The activities in product planning that involve designing and producing the container or wrapper for a product.

Trade Mark : A brand or a part that is given legal protection because it is capable of exclusive appropriation.

7.6 ANSWERS TO CHECK YOUR PROGRESS

- B 5 i) False ii) False iii) True iv) True
 v) False vi) False vii) True
- C 3 i) False ii) True iii) False iv) False
 v) True

7.7 TERMINAL QUESTIONS

- 1) Identify the basic factors that prompt a company to brand its products. Select any well-advertised brand of your choice and define the personality of that brand.
- 2) What are the brand strategy options open to a firm? Discuss their relative strength and weaknesses.
- 3) Select a branded consumer product of your choice. Analyse in detail the factors that have contributed to its success.
- 4) Do you consider branding to be of identical importance in marketing (a) industrial products, (b) consumer products, and (c) agricultural products? Five supportive arguments..
- 5) Sometimes even a well-established company tries to promote only the individual brand and keep its own name as inconspicuous as possible. Can you explain this strategy?
- 6) One marketing expert strongly urged every manufacturer to adopt a 'nonsense word' as the brand. What can be the reason for this recommendation?

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

SOME USEFUL BOOKS

Indira Gandhi National Open University, School of Management Studies. 1989.
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- Neelamegham, S. 1988. *Marketing in India Cases and Readings*, Vikas Publishing House : New Delhi, (Chapters 36-41)
- Sherlekar, S.A. 1984. *Marketing Management*, Himalaya Publishing New Delhi. (Chapters 12 and 13)
- Stanton, William, J., and Charles Futrell. 1987. *Fundamentals of Marketing*, McGraw-Hill : New York. (Chapters 9-11)